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AUGUST 1972

DEMAND AND PRICE Situation

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PROCUREMENT SECTION
CURRENT SERIAL RECORDS



Table 1.--Selected measures of economic activity

Item	Unit	Year 1971	1970				1971				1972			
			1970				1971				1972			
			I	II	III	IV	I	II	III	IV	I	II	I	II
Gross national product.....	Bil. dol.	1,050.4	989.7	1,023.4	1,043.0	1,056.9	1,078.1	1,109.1	1,139.0					
Disposable personal income.....	Bil. dol.	744.4	704.0	725.7	742.9	750.4	758.5	770.5	782.9					
Personal consumption expenditures.....	Bil. dol.	664.9	626.5	648.0	660.4	670.7	680.5	696.1	712.5					
Food spending (excluding alcoholic beverages).....	Bil. dol.	117.3	117.2	116.5	116.9	117.3	118.4	120.6	123.3					
Implicit price deflator for GNP.....	1958=100	141.6	137.8	139.8	141.3	142.4	142.9	144.7	145.4					
Unemployment rate 2/.....	Percent	5.9	5.8	6.0	6.0	6.0	5.9	5.8	5.8					
Cash receipts from farm marketings.....	Bil. dol.	53.1	50.2	51.9	52.1	53.4	54.9	56.5	56.9					
Nonmoney income and government payments.....	Bil. dol.	7.0	7.4	7.1	7.0	7.0	6.9	7.6	7.9					
Realized gross farm income.....	Bil. dol.	60.1	57.6	59.0	59.1	60.4	61.8	64.1	64.8					
Farm production expenses.....	Bil. dol.	44.0	41.8	43.2	43.7	44.3	44.9	45.6	46.5					
Farmers' realized net farm income.....	Bil. dol.	16.1	15.8	15.8	15.4	16.1	16.9	18.5	18.3					
Agricultural exports 3/.....	Bil. dol.	7.8	2.2	2.0	1.9	1.9	1.9	2.2	2.1					
Agricultural imports 3/.....	Bil. dol.	5.8	1.4	1.4	1.6	1.7	1.1	1.7	1.5					
Volume of farm marketings.....	1967=100	111	142	95	83	113	151	96	83					
Livestock and products.....	do.	107	109	103	105	109	114	102	105					
Crops.....	do.	115	188	84	55	118	201	89	54					
Prices received by farmers 4/.....	do.	112	107	110	112	112	115	120	122					
Livestock and products.....	do.	116	110	114	114	116	120	129	128					
Crops.....	do.	107	103	105	110	107	108	110	114					
Prices paid by farmers 4/ 5/.....	do.	120	115	118	120	120	121	124	125					
Wholesale price index, all commodities 4/.....	do.	113.9	111.0	112.5	113.8	114.7	114.8	117.0	118.2					
Consumer price index, all items 4/.....	do.	121.3	118.6	119.5	120.8	122.0	122.7	123.7	124.7					
All food.....	do.	118.4	115.2	116.1	118.4	119.6	119.4	121.6	122.6					
Food at home.....	do.	116.4	113.4	114.1	116.6	117.7	117.2	119.8	120.5					

1/ Preliminary. 2/ Unemployment as a percent of the civilian labor force. 3/ Actual values, not seasonally adjusted annual rates. 4/ Not seasonally adjusted. 5/ Including interest, taxes, and wage rates. Quarterly data seasonally adjusted except as noted.

Departments of Agriculture, Commerce, and Labor.

THE DEMAND AND PRICE SITUATION

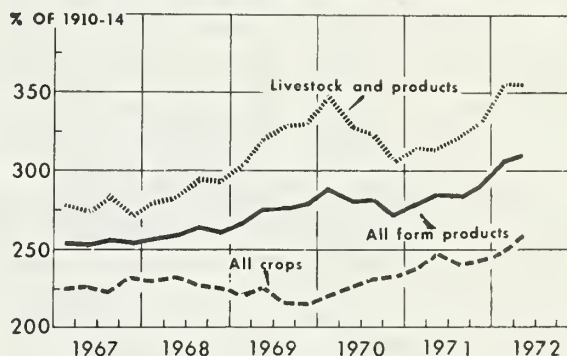
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SUMMARY

Farm income was record high in the first half of this year and should remain very strong for the second half. Consumer demand for red meat and a decline in pork production will keep average livestock and product prices well above 1971 levels for the remainder of 1972. Strong demand and smaller supplies for several crops will likely raise average crop prices for the year.

PRICES RECEIVED BY FARMERS



U.S. DEPARTMENT OF AGRICULTURE

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Approved by
the Outlook and Situation Board
and Summary released
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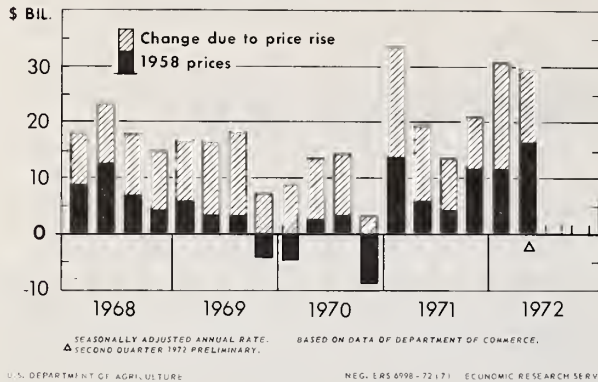
Price strength resulting from a good export picture including grain sales to Russia and smaller output could mean a slight improvement in total annual crop receipts from 1971's \$22.6 billion. Brisk demand and little change in total supplies may increase livestock and product receipts \$3½ billion above the \$30½ billion of last year, while Government payments will rise around \$1 billion this year. These developments will raise gross farm income approximately \$4½ billion above last year's \$60 billion. With production expenses estimated to rise \$2½ billion, realized net farm income is headed for a record, around \$2 billion over 1971's \$16 billion.

The general economy has warmed up this summer. Output of goods and services has climbed at a far more rapid rate than 1971's average pace and price level increases have slowed. Availability of manpower, credit, and most materials, coupled with strong public and private demand, point to further economic expansion. Industry, spurred by larger corporate profits, will continue to improve and expand facilities and increase production. These developments should further stimulate sales of producer and consumer goods well into 1973. Home buying will likely hold around current record levels.

The *Demand and Price Situation* is published in February, May, August, and November.

GROSS NATIONAL PRODUCT

Change from Previous Quarter



The business upswing will also be aided by brisk State and local government outlays and large Federal expenditures and transfer payments. The 20% increase in social security benefits will add billions at an annual rate into the income stream beginning in October. And minimum wage increases, rising wage rates, and growing employment should give consumers more money to spend for food and other goods. Disposable personal income probably will rise 7½% this year and moderately faster in 1973.

Consumers bought food in the second quarter this year at a \$123.3 billion annual rate, more than 5½% over a year earlier. Food expenditures for the entire year may be up by about the same percentage, with higher prices accounting for most of the increase, though the largest price increases may have already come earlier in the year.

Prices of all food at retail in the second quarter rose 3.5% over a year earlier, with food at home up 3.3%. Retail food prices will remain well above last year during the rest of 1972. Some seasonal relief is expected in late summer and early fall from fresh fruits and vegetables, although potatoes may be much higher than a year earlier. More beef and a seasonal pickup in pork supplies should moderate retail red meat price increases towards the end of the year. Still, retail pork prices will remain above last year's level. For all of 1972, retail food prices will likely be up around 4½%.

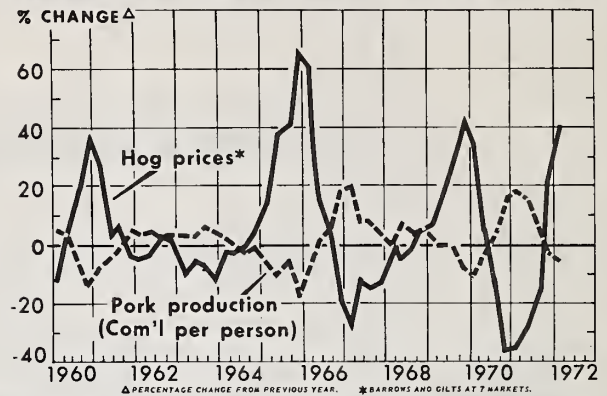
Exports of U.S. agricultural products in 1971/72 were record high for the second straight year, reaching an \$8 billion total. Exports included \$1 billion worth of animals and animal products and \$2 billion worth of soybeans and soybean products, a record level for an individual commodity. Value increases also were registered for cotton, fruits and nuts, and vegetables. The 1972/73 export outlook is good as world markets remain strong for most of our commodities.

... Outlook for major farm commodities. . .

... *Hog* slaughter will trail year-ago levels into mid-1973. Prices, though declining seasonally this fall, will continue well above a year ago.

... *Cattle* on feed are up and marketings will top 1971

CHANGES IN HOG PRICES AND PORK PRODUCTION



levels this summer and fall. Prices may ease some in coming months but remain above a year earlier.

... *Broiler* meat output will ease from the large gains early in the year but continue moderately above 1971. Prices will average higher than last year due in part to relatively high red meat prices.

... *Turkey* output will continue above a year ago in the second half. Prices, weak recently, will rise seasonally to near year-ago levels this fall.

... *Egg* output has declined below a year ago recently and prices are rising.

... *Milk* output ran 1.3% higher on a daily average basis in the first half and prices were up slightly as commercial demand improved.

... *Feed grain* acreage is off sharply this year but larger carryins will keep 1972/73 supply close to a year ago. Prices are expected to decline seasonally to harvesttime, but be firmer than year-ago levels.

... *Wheat* production will be lower this year but 1972/73 supply will be boosted by larger carryin. Prices may average around the year earlier level this season depending on the extent of export shipments to the USSR.

... *Soybean* carryover this September will be down to a few weeks' supply. A large prospective crop this fall will boost 1972/73 supplies around 5%. Continuing strong demand may keep farm prices close to the 1971/72 level of \$3 per bushel.

... *Cotton* disappearance dwindled stocks to the lowest level in 2 decades. Prices are benefiting from tight supplies and steady demand. The 1972 crop acreage is up sharply.

... *Tobacco* CCC stocks are the lowest since 1963. Production is up slightly from 1971 but still below probable disappearance. Cigarette consumption continues to gain, but cigar sales are sliding.

... *Fresh vegetable* prices may average a little above last summer with slightly smaller available supplies. *Processed vegetable* supplies will probably be larger this season but prices will remain firm.

... Total U.S. *noncitrus fruit* crop is lower this season and prices are expected to average higher. *Citrus* prices through the remainder of the season will be below a year ago due to larger supplies.

AGRICULTURAL SITUATION

Farmers are having an excellent year in terms of net income and average farm prices. Incomes were very strong in the first half and should remain well above 1971 levels throughout the year. Average farm prices in 1972 will probably average 9% more than last year, primarily due to livestock increases. Little change in total supplies and continued brisk demand will maintain substantial increases in prices and receipts for livestock and products for the balance of 1972.

Prices received by farmers, change from a year earlier¹

Month	All crops	Livestock and products
	Percent	Percent
January 1971	6.2	-12.7
February	8.2	-7.1
March	11.3	-8.0
April	11.3	-5.8
May	10.0	-2.6
June	11.9	-3.4
July	6.9	-4.2
August	5.9	1.7
September	0	.9
October	1.9	4.4
November	2.8	9.2
December	8.0	13.0
January 1972	8.8	14.5
February	4.8	12.0
March	0	12.2
April	3.7	9.6
May	4.5	13.2
June	2.7	15.9
July	6.4	19.3

¹ Percent changes computed from indices on 1967 base.

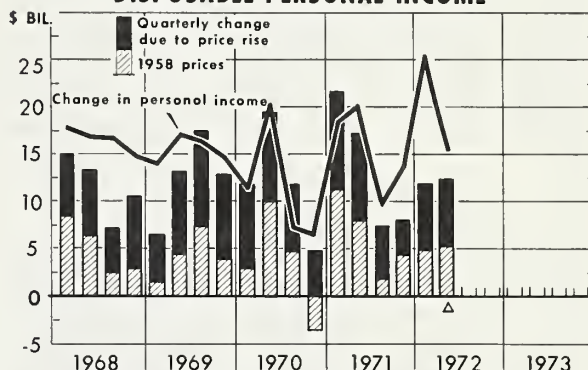
A decline in production of most crops this year points to an increase of 3% in average crop prices led by price rises for fruit, tobacco, soybeans, and potatoes. Cotton prices rose considerably in the first half of this year because of below-average production and firm demand.

For all of 1972, livestock marketings will likely be near year-ago levels and crop marketings may decline some. A rising economy should help raise livestock receipts \$3½ billion and crop receipts marginally. Government payments to farmers may be up about \$1 billion over last year because of payments for additional set-aside. Combined with increased marketing receipts, this would bring farmers' gross incomes up by \$4½ billion. If farm expenses slow to around a \$2½ billion increase, realized net farm income in 1972 may be some \$2 billion above 1971's \$16.1 billion. This would be an all-time record.

Domestic Sales Rising

Lower personal saving rates and larger personal incomes are helping sales of consumer products. Shoppers are spending more for food, alcohol, clothing, shoes, and tobacco. Purchases of these goods rose to an annual rate of \$218 billion in the second quarter, up from \$212 billion in the first quarter this year. With employment increasing, purchases of these products could total about 6½% over last year's \$205 billion.

DISPOSABLE PERSONAL INCOME *



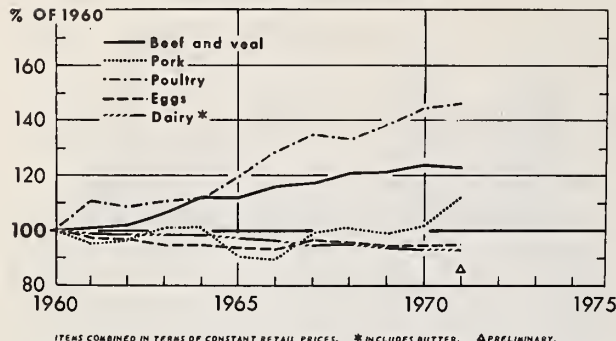
* CHANGE FROM PREVIOUS QUARTER. Δ SECOND QUARTER 1972 PRELIMINARY.
SEASONALLY ADJUSTED ANNUAL RATE. BASED ON DATA OF DEPARTMENT OF COMMERCE.
U.S. DEPARTMENT OF AGRICULTURE NEG. EPS 7848-72 (18) ECONOMIC RESEARCH SERVICE

A substantial rise in hours worked and hourly pay, additional social security benefits, and growth in number of workers employed will increase after-tax income about 7½% over 1971 despite overwithholding of payroll tax deductions. An increase in minimum wage, likely this year, will also contribute to rising wage rates. These income pressures will probably continue well into 1973 as the economy continues upward.

Consumer outlays for food in the second quarter this year were at a \$123.3 billion annual rate, more than 5½% over a year earlier and a slightly faster rise than in the first quarter this year. Some slowing in retail food prices in the second quarter may indicate that the largest increases from a year ago have already occurred. Food expenditures this year may be nearly 5½% larger than in 1971, with higher prices accounting for most of the increase.

Prices of all food at retail in the second quarter ran 3.5% over a year ago, with food at home up 3.3%. Retail livestock product prices and smaller supplies are limiting gains in consumption. Higher red meat prices and strong demand are holding broiler retail prices higher despite increased supplies. Retail egg prices may average higher for the year after a depressed first half. Smaller supplies and higher prices characterize the domestic pork

PER CAPITA CONSUMPTION OF SELECTED LIVESTOCK PRODUCTS



U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 5277-72 (6) ECONOMIC RESEARCH SERVICE

markets. Beef supplies are expected to pick up later this year preventing further increases in beef prices. Firm demand and limited supplies will likely keep retail fish prices well over a year earlier throughout the summer and fall. Retail fruit and vegetable prices, up earlier this year, may stay near year-ago levels as supplies increase seasonally. For all of 1972, retail food prices will likely be up around 4½%, with food at home rising only slightly less.

Another Record Year for Exports

The value of U.S. agricultural exports during 1971/72 at \$8 billion was 4% higher than the previous record of a year ago. All of the advance reflected sales in commercial markets at higher prices. Dock strikes, international monetary uncertainty, and large worldwide grain production, especially wheat, combined to hamper export shipments during first half fiscal 1972. However, exports rebounded in the second half and set a six-month record of \$4.2 billion. Exports were aided by renewed economic activity in many developed nations, the improved competitiveness of U.S. farm products due to currency realignments and poor foreign grain harvests, especially in Argentina.

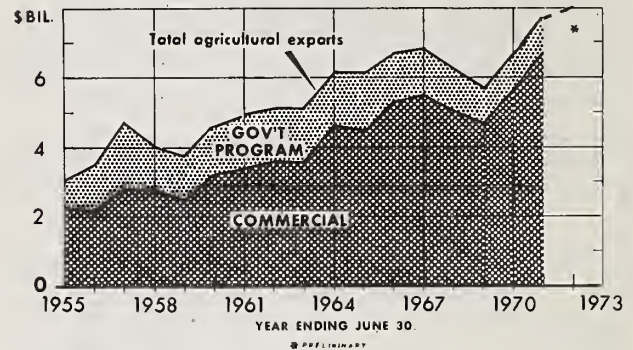
U.S. agricultural exports, value of major commodities

Commodity	July-June		Percent- age change
	1970/71	1971/72 ¹	
	Million dollars	Million dollars	Percent
Animals and animal products	903	1,011	12
Cotton	492	530	8
Feed grains, excluding products	1,096	1,118	2
Fruits	341	381	12
Soybeans	1,273	1,391	9
Tobacco, unmanu- factured	570	570	0
Vegetables	208	230	11
Wheat and flour	1,201	1,047	-13
Rice	289	305	6
Other	1,383	1,467	6
Total exports	7,756	8,050	4

¹ Preliminary.

Increased volume and prices lifted soybean and soybean products exports to \$2 billion, an all-time record for an individual commodity. Higher prices moved cotton export value up sharply despite a 12% drop in volume. Foreign sales of U.S. grains were mixed. Wheat shipments were off sharply but feed grains rallied late in the fiscal year, with help from Soviet Union purchases, to increase 2% in value. Exports of animals and animal products strengthened their position in the U.S. export picture by topping \$1 billion for the first time.

U.S. AGRICULTURAL EXPORTS: COMMERCIAL AND UNDER GOVERNMENT PROGRAMS



The outlook for 1972/73 was brightened by the recently announced 3-year, \$750 million grain agreement with the USSR. Provisions of the pact call for at least \$200 million of U.S. grains to be purchased during the period from August 1, 1972, through July 31, 1973, elevating the Soviet Union to our second largest grain customer. Also, foreign markets for soybeans and cotton continue strong and U.S. crop prospects indicate that more of each commodity may be available in the coming year.

U.S. agricultural imports during 1971/72 at \$6 billion were 4% above a year earlier. The entire advance occurred in the second half of the fiscal year when an improved domestic economic climate stimulated demand for imported agricultural commodities and the settlement of dock strikes and reduced import duties made them more accessible.

The value of competitive (supplementary) agricultural imports totaled \$3.9 billion in 1971/72, 7% higher than a year ago. Competitive imports, accounting for more than three-fifths of all farm imports, were responsible for all of the gain in imported agricultural products this year. Most of the major competitive imports increased in value this year with animals and animal products, sugar, tobacco, and wines the big gainers.

Noncompetitive (complementary) agricultural imports at \$2.1 billion were slightly below the level of a year ago. Many of the important noncompetitive imports were lower this year, including bananas, cocoa, and coffee. These declines were offset by sharply higher values of some minor items such as tea, carpet wool, and spices.

U.S. Agricultural imports, value of major commodities

Commodity	July-June		Percent- age change
	1970/71	1971/72 ¹	
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Supplementary			
Animals and animal products	1,537	1,621	5
Fruits	166	168	1
Oilseeds and oil products	220	207	-6
Sugar and molasses	791	882	12
Tobacco, unmanufactured	140	159	14
Vegetables	308	329	7
Wines and malt beverages	187	217	16
Other	336	367	9
Total	3,685	3,950	7
Complementary			
Bananas	197	182	-8
Cocoa and chocolate	267	244	-9
Coffee	1,220	1,170	-4
Rubber	206	202	-2
Other	254	295	16
Total	2,144	2,093	-2
Total imports	5,829	6,043	4

¹ Preliminary.

U.S. agricultural trade balance July-June 1970/71 and 1971/72

Item	1970/71	1971/72 ¹	Percentage change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Exports	7,756	8,050	4
Imports	5,829	6,043	4
Trade balance	1,927	2,007	4

¹ Preliminary.

The U.S. agricultural trade balance, following a substantial increase a year ago, was up slightly in 1971/72. At \$2,007 million, the balance was 4% above 1970/71.

Crop Prospects Down

Planted acreage of all crops at 308 million acres is 3% below a year ago. This could translate into a 10-million acre drop in total acres available for harvest. Although grain acreage has been cut, gains in cotton and soybean plantings have been partially offsetting.

Wet and dry weather are combining to lower crop expectations this year. The heavy rains and flooding accompanying tropical storm Agnes on the Atlantic Coast have reduced crop prospects in some areas. In addition, hot dry weather in the far West is causing less favorable crop and pasture conditions.

Less acreage this year will ease output slightly below a year ago. Strong demand continues to keep soybean and cotton stocks thin and prices firm. Less grain production will keep prices, declining seasonally, above the levels of a year ago this fall.

The 1972 feed grain crop was projected at 184 million tons in July, 10% less than the record harvest of a year

ago and somewhat less than 1972/73 projected use. Nevertheless larger carryin will keep supply close to last year's ample level. Growers reduced their acreage through heavy participation in the voluntary set-aside provisions of the Feed Grain Program. A wet spring delayed corn plantings but provided abundant moisture for good growth. However, smaller acreage this year at projected yields points to a corn crop of almost a tenth below last year's record 5.5 billion bushels.

Feed grain domestic utilization in 1972/73 will likely be increased by higher livestock numbers and continued favorable livestock-feed price ratios. In addition, the recently announced Russian grain pact could stimulate exports in the coming season. Consequently, carryout next year will be under the estimated 52 million tons for the end of 1971/72.

Stocks of grains

Grain and position	July 1, 1971	July 1, 1972	Per- centage change 1972/71
	<i>Million tons</i>	<i>Million tons</i>	<i>Percent</i>
TOTAL FEED GRAINS			
On farms ¹	41	54	32
Off farms ²	20	28	40
Total	61	82	34
	<i>Million bushels</i>	<i>Million bushels</i>	<i>Percent</i>
WHEAT			
On farms ¹	239	357	49
Off farms ²	491	509	4
Total	730	865	18
SOYBEANS			
On farms ¹	91	58	-36
Off farms ²	191	174	-9
Total	282	232	-18

¹ Estimates of the Crop Reporting Board. ² Including grain owned by Commodity Credit Corporation.

Totals may not add due to rounding.

Wheat production this year is estimated at 1.6 billion bushels, 5% less than the record crop of 1971. However, larger carryin is expected to maintain the 1972/73 supply at 2.4 billion bushels. Projected use this season is moderately above the level of a year ago with a pickup in exports more than offsetting less wheat feeding. Depending on the extent of wheat shipments to Russia under the newly authorized grain agreement, carryout next summer could be close to last July 1. With demand continuing firm, wheat prices received by farmers this season may average around the \$1.31 per bushel of 1971/72.

Rice supplies in 1972/73 have been depleted by reduced beginning stocks and little increase in this year's crop. Production is estimated at 85.5 million cwt., only 1% higher than a year ago. With domestic use inching upward and exports continuing large, carryover into next season will likely decline again.

Soybean producers responding to the highest prices in nearly a quarter century have increased acreage 8% this year. The record 45½ million acres for harvest may

Table 2.--Supply-distribution and season average prices of selected major crops, 1969/70, 1970/71, 1971/72, and 1972/73

Item	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1969/70.....	mil. tons	50.0	0.4	174.6	225.0	155.4	21.2	176.6	48.4	2/1.15
1970/71p.....	mil. tons	48.4	.4	158.6	207.4	153.7	20.7	174.4	33.0	2/1.32
1971/72e.....	mil. tons	33.0	.2	205.3	238.6	162.8	23.8	186.6	52.0	2/1.08
1972/73f.....	mil. tons	52.0	.3	183.8	236.1					
Wheat										
1969/70.....	mil. bu.	818.6	3.2	1,460.2	2,282.0	791.2	606.1	1,397.3	884.7	1.24
1970/71p.....	mil. bu.	884.7	1.1	1,370.2	2,256.0	788.3	737.5	1,525.8	730.2	1.33
1971/72e.....	mil. bu.	730.2	1.0	1,639.5	2,370.7	873.6	631.8	1,505.4	865.3	1.31
1972/73f.....	mil. bu.	865.3	1.0	1,550.7	2,417.0	805.0	800.0	1,605.0	812.0	
Rice										
1969/70.....	mil. cwt.	16.2	.2	90.9	107.3	4/34.0	56.9	90.9	16.4	4.95
1970/71p.....	mil. cwt.	16.4	1.4	83.8	101.6	4/36.5	46.5	83.0	18.6	5.17
1971/72e.....	mil. cwt.	18.6	1.5	84.3	104.4	35.2	57.5	92.7	11.7	5.24
1972/73f.....	mil. cwt.	11.7	n.a.	85.5						
Soybeans										
1969/70.....	mil. bu.	324.4	0	1,126.3	1,450.7	788.0	432.6	1,220.6	230.1	2.35
1970/71p.....	mil. bu.	230.1	0	1,123.7	1,353.8	821.7	433.2	1,254.9	98.9	2.85
1971/72e.....	mil. bu.	98.9	0	1,169.4	1,268.3	783	425	1,208	60	3.01
1972/73f.....	mil. bu.	60	0	1,277						
Cotton										
1969/70.....	mil. bales	6.5	6/1	9.9	16.5	8.0	2.8	10.8	5.8	21.09
1970/71p.....	mil. bales	5.8	5/1	10.2	16.1	8.1	3.7	11.8	4.3	21.98
1971/72e.....	mil. bales	4.3	6/1	10.2	14.6	8.1	3.3	11.4	3.2	28.62
1972/73f.....	mil. bales	3.2	6/1	12.5	15.8	8.1	3.1	11.2	4.6	

1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Price for corn. 3/ Less than 50,000 cwt. 4/ Includes the following statistical discrepancies: 1969/70, 0.9, and 1970/71, 2.2 mil. cwt. 5/ Production based on ginnings between August 1 and July 31. 6/ Includes city crop. 1971/72 based on recent crop reports and disappearance estimates. Details may not add to totals due to rounding. p. Preliminary. e. Estimated. f. Forecast. n.a. - Not available.

produce a 1.3 billion bushel 1972 crop, up nearly a tenth from a year ago. However, supplies are expected to remain tight in 1972/73 with carryin stocks down around .60 million bushels, only a few weeks supply. With continued emphasis on livestock feeding at home and abroad, domestic and export demand in 1972/73 is expected to continue strong. For the year prices are likely to average near the \$3 per bushel of 1971/72.

Cotton farmers this year planted an estimated 13.8 million acres, an increase of 12% from a year ago. Producers were encouraged to expand plantings this year because of the relatively firm demand and higher prices during the 1971/72 season. Harvest of a larger crop would raise cotton supplies in 1972/73 despite the smallest carryover—3¼ million bales—in two decades.

Tobacco production this season is forecast close to 1.8 billion pounds, 2¼% above 1971's crop. Americans are smoking more cigarettes this year but flue-cured domestic use is slightly lower. Despite the larger carryin, 1972/73 flue-cured supplies are estimated down slightly with a 5% decline projected for this year's crop. Burley supplies in 1972/73 are expected to about match 1971/72 levels with a larger crop offsetting reduced beginning stocks. Prices to tobacco growers will likely continue above a year ago in the second half, averaging moderately higher than 1971's level for the year.

Fresh vegetable supplies are expected to be slightly smaller this season. All major fresh crops will likely be reduced this summer with the exception of carrots and tomatoes. Growers can expect prices this summer to average a little above the levels of a year ago. Processing vegetable supplies will be a little larger this summer with increased harvests of most of the major processing commodities. Some advance in the total pack of canned and frozen vegetables is in prospect, however, lower carryovers will be partially offsetting. Prices are expected to be generally firm even in the face of a small increase in total supplies.

Potato production this summer is substantially below a year ago and prices have risen sharply. Growers have indicated less planted acreage to the fall crop suggesting that prices will continue above a year earlier for the balance of 1972.

A cold spring has lowered this season's supply of noncitrus fruits and prices are expected to average higher. Remaining citrus supplies are larger than a year ago. Citrus prices through the remainder of the season will be below the relatively high levels of a year ago.

Livestock Prices to Continue Higher

Production of livestock and livestock products showed little change from year-ago levels in the first half of 1972. A material advance in poultry output and slight gains for beef, eggs, and milk were about offset by lower pork production and continued downtrends in veal and lamb output. Less pork this year dropped first half red meat supplies slightly below 1971. Outlook for the next 6-12 months calls for little expansion in total livestock

supplies. Beef supplies will expand some in the second half but the large gains in poultry production will be moderated. In addition, pork and egg supplies will likely trail year-earlier levels well into first-half 1973. Total 1972 livestock output is expected to be close to the level of a year ago.

Strong consumer demand fueled by healthy gains in after-tax incomes has boosted prices to livestock producers substantially higher this year. Through first half 1972, livestock prices averaged 13% above year-ago levels with meat animal prices up about a fifth. With demand expected to remain brisk and little expansion forecast in supplies, prices to livestock producers this year will average substantially above 1971. Then, with beef supplies expanding and declines in pork supplies becoming smaller, livestock prices into mid-1973 will continue above year-earlier levels but increases will likely narrow.

Fed cattle marketings according to July 1 feeder intentions will increase 9% this summer with the bulk of gain coming from Western feedlots. This would represent only a slight pickup from spring marketings. Furthermore, cattle on feed in weight groups typically slated for fall slaughter are up materially. Omaha fed cattle prices in late July were near \$37 per 100 pounds, \$3 higher than the spring and \$5 above a year ago. In late summer and fall, with increased marketings and seasonal upturn in pork production, prices may soften some but continue well above last year's \$33 per 100 pounds.

Hog slaughter, with 7% fewer marketable hogs on farms June 1, will continue materially below year-earlier levels this summer and fall. In addition, producers intend to cutback sows farrowing moderately for the June-November period suggesting that slaughter will run below a year ago through the first half of 1973. The 7-market price of barrows and gilts in late July was near \$28 per 100 pounds, \$8 above a year ago. Prices, declining seasonally in the fall, will remain well above 1971 for the balance of the year.

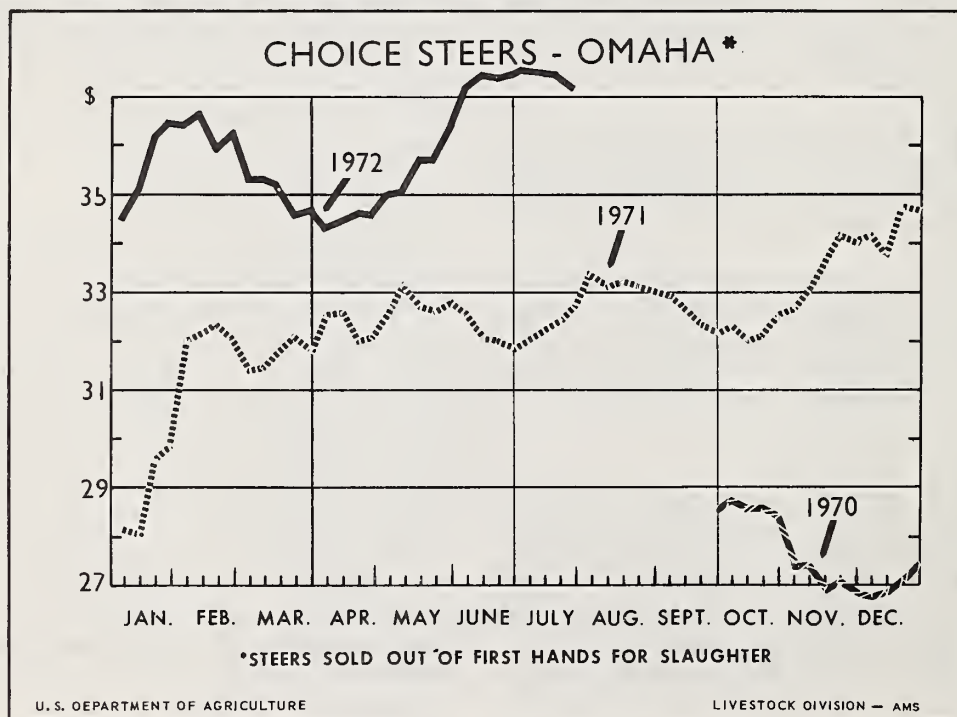
Broiler output at record levels in the first half of 1972 was substantially above the same period of 1971. And broiler prices were supported by smaller pork supplies and higher red meat prices. However, in late spring larger broiler supplies weakened prices causing producers to slow the rate of gain from a year ago in chick placements. For the remainder of the year, broiler output is expected to continue above 1971's second half level. With pork production continuing smaller and red meat prices remaining at a relatively high level, broiler prices in the second half will average above 1971 levels.

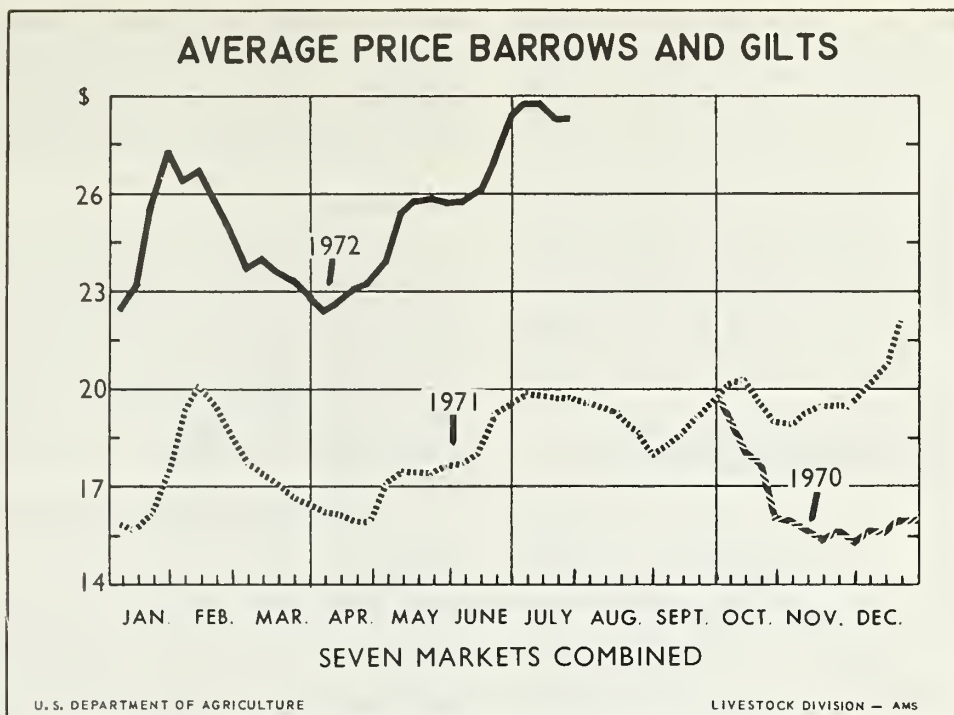
Turkey production was materially above 1971 levels in the first half but higher utilization kept stocks about the same. Turkey output will likely remain above a year ago in the second half. Turkey prices, sluggish recently, will rise seasonally near year-ago levels during the main marketing season this fall.

Table 3.--Production and prices received by farmers for major livestock and livestock products, 1969, 1970, 1971, and second quarters of 1971 and 1972

Item	Unit	Annual			Second quarter	
		1969	1970	1971	1971	1972 <u>1/</u>
Production <u>2/</u>						
Beef and veal.....	Mil. lb.	21,831	22,273	22,450	<u>3/</u> 5,575	<u>3/</u> 5,662
Pork.....	Mil. lb.	12,953	13,436	14,795	<u>3/</u> 3,678	<u>3/</u> 3,384
Lamb and mutton....	Mil. lb.	550	551	554	<u>3/</u> 132	<u>3/</u> 129
Chickens.....	Mil. lb.	8,054	8,660	8,720	<u>3/</u> 1,978	<u>3/</u> 2,190
Turkeys.....	Mil. lb.	1,614	1,757	1,809	<u>3/</u> 238	<u>3/</u> 265
Eggs.....	Mil. lb.	9,038	9,189	9,385	<u>2</u> ,371	<u>2</u> ,342
Milk.....	Bil. lb.	116.3	117.1	118.6	<u>4/</u> 32.5	<u>4/</u> 33.0
Prices received by farmers						
Cattle.....	Dol./cwt.	26.20	27.10	29.00	29.20	33.10
Hogs.....	Dol./cwt.	<u>5/</u> 22.20	<u>5/</u> 22.70	<u>5/</u> 17.50	16.80	24.30
Lambs.....	Dol./cwt.	27.20	26.40	25.90	27.30	29.50
Broilers.....	Ct./lb.	15.2	<u>5/</u> 13.6	<u>5/</u> 13.7	14.4	13.7
Turkeys.....	Ct./lb.	22.4	22.6	22.1	21.5	21.7
Eggs.....	Ct./doz.	40.0	<u>5/</u> 39.1	<u>5/</u> 31.4	29.8	27.5
All milk (sold to plants).....	Dol./cwt.	5.49	5.71	5.87	5.61	5.76

^{1/} Preliminary. ^{2/} Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. ^{3/} Data for 48 States. Commercial slaughter only. ^{4/} Based on monthly data. ^{5/} Marketing year average December-November.





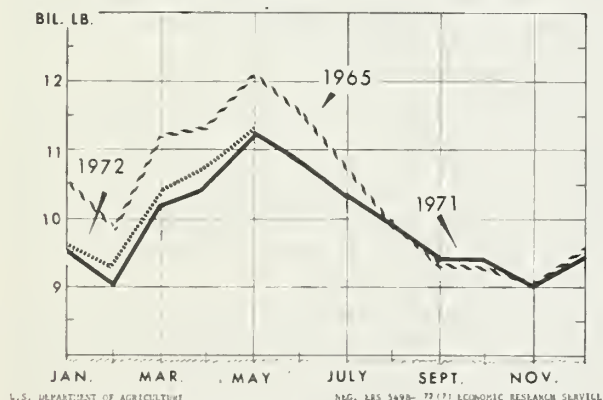
Egg output advanced slightly in the first half of 1972. Larger supplies coupled with sluggish demand depressed prices to egg producers. However, fewer layers and less favorable prospects for continued productivity gains suggest that output will run below year-earlier levels for the balance of 1972. With output declining, prices will show a more than seasonal rise this summer averaging moderately above last year's depressed levels through the fall.

The outlook for the balance of the year calls for continuing production gains with total annual output up slightly from 1971's 118.6 billion pounds. Producer prices are likely to remain slightly higher than a year ago through the rest of the year, particularly if commercial demand continues firm.

Change from a year earlier in livestock-feed
price ratios

Year	Beef steer- corn	Hog- corn	Broiler- feed	Milk- feed
	Percent	Percent	Percent	Percent
1970/69				
I	6.1	31.3	-6.1	1.1
II	-4.7	4.8	-14.7	2.4
III	-10.1	-22.2	-22.2	-6
IV	-15.7	-47.6	-21.9	-3.8
1971/70				
I	-13.5	-48.9	-12.9	-5.1
II	-8.3	-39.9	0	-5.3
III	15.8	-9.5	7.1	1.8
IV	41.7	57.0	4.0	3.9
1972/71				
I	35.1	82.5	11.1	8.3
II	29.4	79.8	-3.4	6.9

U.S. MILK PRODUCTION BY MONTHS



Milk production during January-June 1972 was 62.4 billion pounds, 1.3% above the same period of a year ago on a daily average basis. Milk increases per cow continued to more than compensate for fewer milk cows. Increased commercial dairy sales absorbed more than the first half production increases, lowering CCC purchases of dairy products. The pickup in demand pushed prices to dairy producers slightly higher this

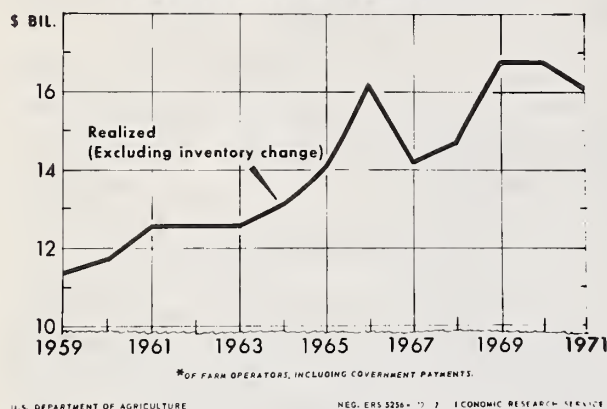
Net Farm Income at Record Rate

The recovery in farm income which began in the second half of 1971 shifted into high gear in first half of 1972. The main catalyst was the surge in livestock product prices spurred by strong consumer demand for red meats. Cash receipts to farmers in the first half were up 8% from a year ago. Sharply higher prices for

livestock commodities, mainly meat animals, raised livestock receipts about 12½%. Declines in receipts for grains offset substantially higher returns to cotton growers and slight increases in some fruit and vegetable receipts leaving total crop receipts about the same as first half 1971.

The expansion in cash receipts during the first half moved realized gross income substantially above 1971 to a seasonally adjusted annual rate of \$64½ billion. Despite continued rises in production expenses, the rapid gains in gross income this year produced a record level of realized net income for farmers of \$18.4 billion at an annual rate. This was nearly \$3 billion above the same period of a year ago.

REALIZED NET FARM INCOME*



For the remainder of the year, farmers' net incomes will continue at a relatively high level though some easing from the record first half is likely. Beef production will advance in second half but sustained red meat demand and smaller pork supplies are likely to keep livestock prices strong.

Soybean prices will continue at a relatively high level, despite an indicated increase in this year's crop. Cotton growers have increased their 1972 planted acreage but demand has kept cotton prices well above 1971 levels so far this year. Prospects point to a reduced grain harvest this year but large carryovers will likely limit price gains this fall. On balance, crop prices may average slightly higher than 1971 for the year.

For all of 1972, not much change in livestock supplies and higher prices may raise cash receipts to livestock producers around \$3½ billion above last year's \$30.5 billion. Crop receipts may be near 1971's \$22.6 billion with less marketings tending to offset a slight increase in average crop prices.

Government payments will aid in bolstering realized gross farm incomes in 1972. Payments are expected to be up around \$1 billion over the \$3.1 billion of 1971. Grain producers are the main beneficiaries of this year's advance. As a result, total realized gross farm income may be \$4½ billion higher than 1971's \$60.1 billion.

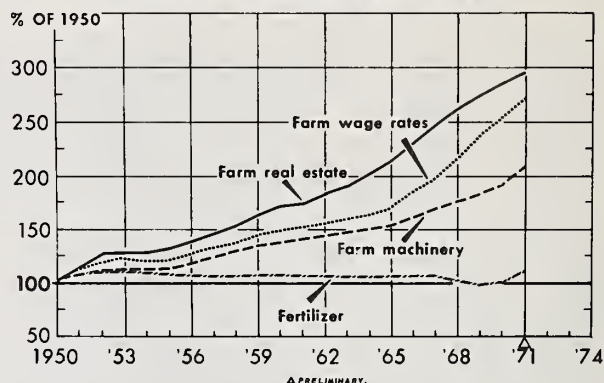
Production expenses will continue to rise in the second half of the year but Phase II economic programs

and lower priced feed may have a tempering influence. For all of 1972 a pickup of around \$2½ billion in production expenses from last year's \$44 billion is likely. Thus, realized net farm income may average around \$2 billion above 1971's \$16.1 billion.

Farm Inputs

Prices paid by farmers for production items, interest, taxes, and wage rates rose slightly more than 4½% in first half 1972. However, through midyear increases in input costs have been slower than the comparable period of a year ago. With the exception of purchased feed, all major input categories carried higher price tags this year. The most dramatic rise was in feeder livestock costs which averaged more than 16% higher during the first half.

PRICES OF SELECTED FARM INPUTS



In the second half, farmers can expect continued increases in prices for production inputs with some buffering by Phase II economic programs. In addition, purchased feed will cost less at least until harvesttime. For the year, farmers' input costs will likely rise moderately from 1971's level.

Farm wage rates (per hour without board or room) rose to \$1.85 on July 1, 1972, more than 5½% above a year ago. Wage gains were noted for all regions of the country. Advances ranged from close to 4% in the Middle Atlantic States to more than 7½% in the Mountain region. Wage rates are expected to continue running above 1971 levels in the second half to average moderately higher for the year.

Farm real estate increased 8% during the year ending March 1, 1972. The average value of an acre of farmland rose to \$217. Value increases were evident in all areas of the country ranging from a tenth higher in the Appalachian and Delta States to 5% higher in the Northern Plains. Higher incomes, increased availability of loanable funds and more favorable interest rates stimulated demand for farm acreage this year.

The retail markets for farm machinery and tractors are enjoying a healthy recovery this year after 5 years of decline. Higher farm income this year, pent-up demand accumulated over the past several years, and the

CHANGE IN DOLLAR VALUE OF FARMLAND

Percentages, March 1971 to March 1972



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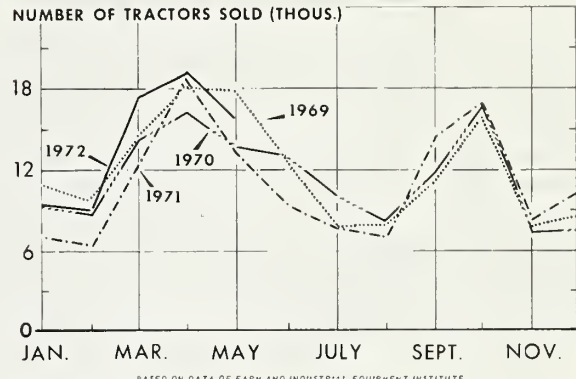
investment tax credit have all contributed to greater sales. With incomes to farmers expected to remain at a relatively high level in the second half, sales of capital equipment items will likely continue to chalk up increases from 1971's level.

Farm machinery sales data (according to the Farm and Industrial Equipment Institute) through May 1972, showed unit sales of most major categories of equipment well above a year ago. Combines, the biggest ticket item in farm machinery sales, were up close to 18%. Corn heads were up about a third and corn pickers up more

than a tenth. Sales of some harvesting equipment were at about the same level this year as in 1971.

Farm tractor unit sales through May, 1972, were up more than a fifth. Year-to-year increases have narrowed from the close to 40% advance recorded during the first quarter. But the more than 20% advance in April and May is more significant because purchases are seasonally larger in these months. The trend toward larger and more powerful tractors continued through May of this year as unit sales of the 100 and over horsepower category were up a third from the same period of 1971.

RETAIL SALES OF FARM TRACTORS



BASED ON DATA OF FARM AND INDUSTRIAL EQUIPMENT INSTITUTE.

U.S. DEPARTMENT OF AGRICULTURE

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Table 4.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1971	1971		1972	
		III	IV	I	II <u>1/</u>
<u>Billion dollars</u>					
Gross national product.....	1,050.4	1,056.9	1,078.1	1,109.1	1,139.0
Gross national product (1958 dollars).....	741.7	742.5	754.5	766.5	783.1
Disposable personal income.....	744.4	750.4	758.5	770.5	782.9
Personal consumption expenditures.....	664.9	670.7	680.5	696.1	712.5
Durable.....	103.5	106.1	106.1	111.0	113.6
Nondurable.....	278.1	278.5	283.4	288.3	296.3
Services.....	283.3	286.1	290.9	296.7	302.6
Personal savings.....	60.9	61.0	59.3	55.7	51.5
Net government receipts.....	215.9	216.8	222.3	241.7	--
Government purchases.....	232.8	233.6	240.9	249.4	254.6
Federal.....	97.8	97.9	100.7	105.7	108.2
State and local.....	135.0	135.7	140.2	143.7	146.4
Deficit or surplus (on income and product accounts).....	-16.9	-16.9	-18.7	-7.7	--
Gross private domestic investment.....	152.0	152.2	158.8	168.1	176.8
Fixed investment.....	148.3	150.9	157.2	167.7	172.6
Residential.....	42.6	44.5	47.3	51.6	52.4
Nonresidential.....	105.8	106.3	109.8	116.1	120.1
Change in business inventories..	3.6	1.3	1.7	.4	4.3
Gross retained earnings.....	109.9	110.5	117.2	115.9	--
Excess of investment.....	-42.1	-41.7	-41.6	-52.2	--
Net exports of goods and services.....	.7	.4	-2.1	-4.6	-4.9
Per capita disposable personal income (1958 dollars).....	2,679	2,684	2,698	2,716	2,736
Total civilian employment (millions) <u>2/</u>	79.1	79.2	80.0	80.8	81.4

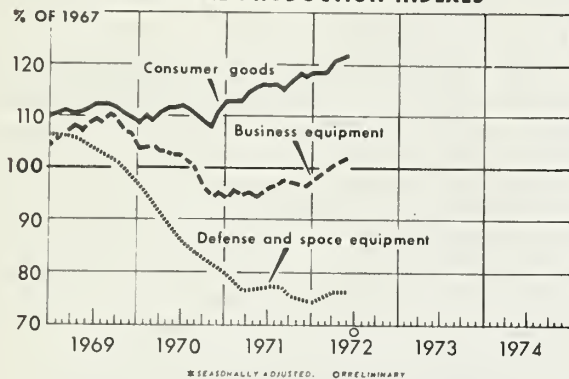
1/ Preliminary.2/ U.S. Department of Labor.

U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The economy has warmed up considerably this summer. Output of goods and services is climbing at a far more rapid rate than 1971's average pace. Expanding industrial production, employment gains, and large advances in personal incomes and corporate profits reflect the acceleration in economic activity. And the Nation's unemployment rate (seasonally adjusted), hovering around 6% for the past 12 months, slid to 5.5% in June. But the international trade deficit and fiscal and monetary problems continue to blur a brightening domestic scene.

INDUSTRIAL PRODUCTION INDEXES*

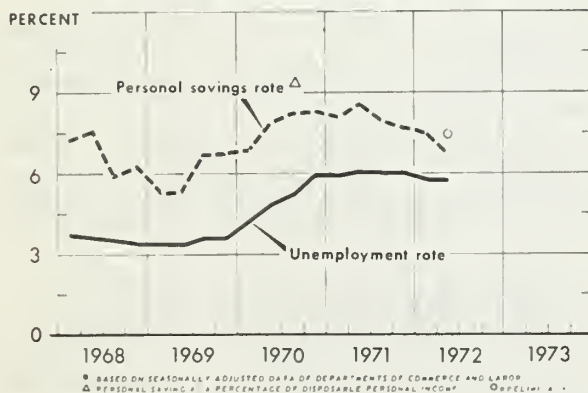


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Business investment has been an important element in the 1972 advance. Buoyed by larger corporate profits and tax credit incentives, new plant and equipment expenditures by industry are running well above a year ago. Inventory investment has picked up and home buying continues at a very high level. Federal expenditures and State and local outlays have also been expansionary factors. Moreover, consumers, saving a lesser portion of their additional income, have stepped up their spending as they normally do during a recovery period.

UNEMPLOYMENT AND SAVINGS RATES*



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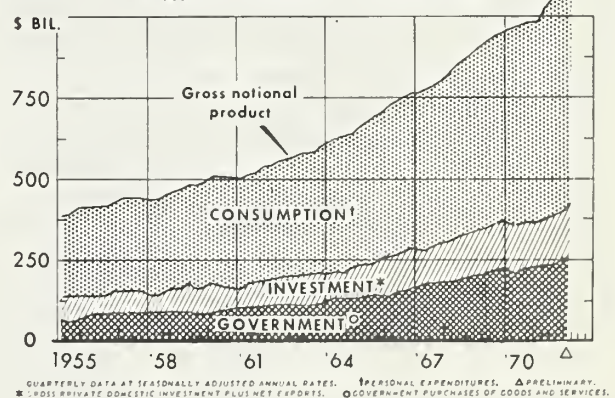
ECONOMIC RESEARCH SERVICE

Outlook is Favorable

Availability of manpower, credit, and most materials coupled with strong public and private demand point to further economic expansion. Most industries will continue to take advantage of relatively moderate interest rates and underemployed technical personnel to improve and expand their facilities and to increase production. This development should stimulate sales of producer goods through the remainder of this year and well into 1973.

The expected business upswing will be aided by large Federal purchases of goods and services and transfer payments. Federal purchases of goods and services are scheduled to rise about 10% this calendar year after barely edging upward last year. Social security benefits, increased across the board by about 20%, together with other additional benefits, will add many billions to the income stream beginning in October. Although social security taxes will be raised in January 1973, the Social Security Act will cause a net addition to the Federal deficit of around \$4 billion in fiscal 1973. Consumer incomes also will be heavily padded by larger than usual income tax refunds in early 1973.

MAJOR SOURCES OF DEMAND



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First half advances this year and investment and consumers' intention surveys appear to confirm this optimistic view. Given these factors, an expansive Federal deficit, and a relatively liberal monetary policy, real output will probably increase by 5½% this year and a slightly larger percentage in 1973. Disposable personal incomes may rise 7½% this year and somewhat faster next year. Though price increases may slow this year, both the Consumer Price Index and the Gross National Product deflator will likely be affected by the rapid rise in economic activity in 1973 once the Nation's resources are more fully utilized.

Major GNP components, change from previous quarter

Item	1971	1972	
	IV	I	II ¹
	Billion dollars	Billion dollars	Billion dollars
Total change in GNP	21.2	31.0	29.9
Consumption	9.8	15.6	16.4
Private nonresidential fixed investment	3.5	6.3	4.0
Housing	2.8	4.3	.8
Inventory ²4	-1.3	3.9
Net exports	-2.5	-2.5	-.3
Government	7.3	8.5	5.2

¹ Preliminary. ² See footnote 1, text table, below.

Spring Green

Shoppers bought large amounts of durable goods in the second quarter bringing total expenditures for consumer goods and services to \$712½ billion at seasonally adjusted annual rate. Big ticket items such as autos, furniture, and appliances were sold as consumers apparently regained confidence and home buying recovered. Purchases of services and nondurable goods also contributed to increases in sales which rose sharply in volume as well as value.

Merchants throughout the East reported large scale property and revenue losses in June as a result of "Hurricane Agnes." Parts of most Atlantic States were declared disaster areas and were given Federal relief aid and Small Business Administration loans. For the country as a whole, retail sales dipped from May to June to a seasonally adjusted \$36.4 billion but still were running 7½% above a year earlier.

GNP and final sales, change from previous quarter

Year	GNP	Final sales	Inventory change ¹
	Billion dollars	Billion dollars	Billion dollars
1969:I	16.8	17.9	-1.2
II	16.5	15.4	1.2
III	18.2	15.7	2.5
IV	7.2	12.3	-5.1
1970:I	9.1	13.0	-4.0
II	13.7	9.1	4.8
III	14.6	14.7	-1.1
IV	3.4	3.9	-.5
1971:I	33.7	34.4	-.8
II	19.6	17.9	1.7
III	13.9	19.2	-5.3
IV	21.2	20.8	.4
1972:I	31.0	32.2	-1.3
II ²	29.9	26.1	3.9

¹ Represents the difference in the change in business inventories. For example, the change in business inventories in the second quarter of 1972 (\$4.3 billion) less the change in the first quarter of 1972 (\$0.4 billion) equals plus 3.9 billion. ² Preliminary.

Investment Red Hot

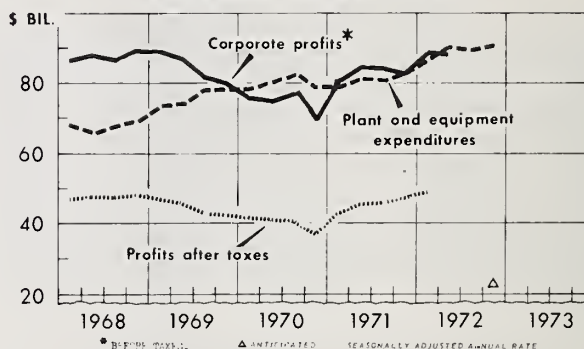
Gross private domestic investment pushed ahead on three fronts in the second quarter. Business fixed investment, residential structures, and net changes in

business inventories all made gains. Business fixed investment did not match its first quarter surge, rising to a level of \$120 billion on a seasonally adjusted annual basis. This is about 14% above 1971's second quarter level, approximately the annual 1972 pace indicated by investment surveys taken early this year.

Housing expenditures increased less than \$1 billion in the second quarter to \$52 billion on a seasonally adjusted annual basis. More than 25% over a year earlier, this advance continues a two-year trend from a low of \$29.7 billion in the second quarter of 1970. Given projected Federal, State, and local plans as well as the rise in personal incomes expected in the next 18 months, the housing industry will certainly expand even further-limited only by the possibility of higher mortgage rates next year and scarcity of lumber and building craftsmen.

The nearly zero gain in inventories in the first quarter this year looked bad. But as larger manufacturing orders came in and retail sales picked up steam in May, the tide turned. Inventories increased \$4 billion in the second quarter, still much smaller than the traditional change associated with large quarterly advances in the gross national product. The advance of the economy and the growing scarcity of certain products that accompany the rise would indicate that larger gains in inventory investment are on the way. This accumulation would boost the 1972 and 1973 expansion significantly.

CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES



Second quarter company reports raise hopes that corporate profits rose on an aggregate basis during the April-June period. Corporate profits before taxes rose \$5 billion in the first quarter to a \$88.2 billion level, bringing gains in dividends, undistributed corporate profits, and Federal corporate income tax receipts. Some firms are reaching the profit margin ceilings established by the Price Commission.

Government Expenditures and Receipts

The good news is that Federal tax receipts have been markedly improved so far this fiscal year. Because of the rise in the economy and because payroll tax

withholdings are too high, personal tax and corporate tax receipts have cut the expected Federal deficit on a national income basis despite increased expenditures. Thus fiscal year 1972's deficit wasn't as large as expected earlier.

Federal receipts and expenditures, national income basis¹

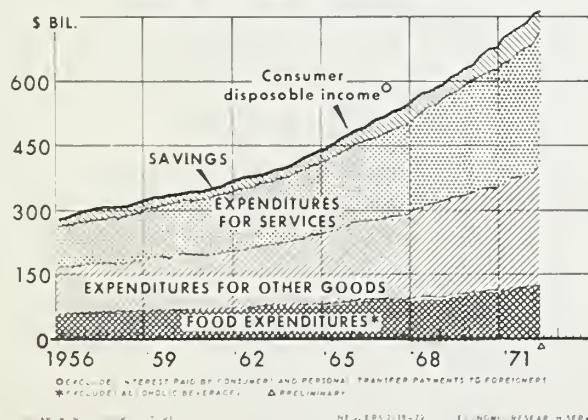
Item	1971		1972
	First half	Second half	First half ²
	Billion dollars	Billion dollars	Billion dollars
Receipts	197.3	201.0	³ 223.3
Personal tax	87.4	91.8	106.5
Corporate profits tax	34.2	32.2	³ 35.0
Indirect business tax	20.6	20.4	19.6
Social insurance	55.3	56.6	62.2
Expenditures	216.8	224.8	241.4
Goods and services	96.2	99.3	107.0
Transfer payments	73.0	77.0	80.0
Grants to State and local governments	28.3	30.3	35.2
Net interest paid	13.8	13.4	13.4
Subsidies less surplus	5.6	4.8	5.8
Surplus or deficit	-19.5	-23.9	-18.1

¹ Calendar years, seasonally adjusted annual rates. ² Preliminary.
³ Estimated.

The bad news is that fiscal year 1973, which started July 1, 1972, will bear the brunt of increased transfer payments and purchases of goods and services. Also, tax refunds will be extensive after tax payers file their returns next year. Increased taxes and tax reform in 1973 are under consideration because of the expected fiscal year 1973 deficit and its effect on inflation and the money markets.

State and local government expenditures advanced \$2½ billion on a seasonally adjusted annual rate in the second quarter. Incomes in most jurisdictions are being helped considerably by the economic upturn and extensive Federal grants. As Federal taxes have been cut in recent years, many local taxes have been raised accordingly. Although conditions vary, State and local governments, on an aggregate basis, have increased their budget surplus considerably in fiscal 1972.

INCOME AND EXPENDITURES



Employment and Income

Total employment rose in June by 273,000 to 81.7 million, nearly 3 million above last June. On a seasonally adjusted basis, unemployment dipped as new entrants into the labor force slowed. These factors brought the first substantial drop in the seasonally adjusted unemployment rate (from 5.9% in May to 5.5% in June) in more than a year and a half.

Major personal income components, change from previous quarter

Item	1971 IV	1972	
		I	II ¹
	Billion dollars	Billion dollars	Billion dollars
Personal income	13.6	25.5	15.5
Wages and salaries	10.0	22.1	12.2
Manufacturing	2.7	6.1	5.0
Nonmanufacturing	5.9	10.5	5.5
Government	1.3	5.5	1.7
Other Income	2.2	3.7	2.3
Transfer payments	1.8	2.4	1.6
Social Insurance payments (minus)6	2.7	.5
Personal tax payments	5.5	13.5	3.1
Disposable personal income	8.1	12.0	12.4
Personal outlays	9.8	15.7	16.6
Personal savings	-1.7	-3.6	-4.2

¹ Preliminary.

Aided by June increases, nonagricultural payroll employment advanced 672,000 in the second quarter on a seasonally adjusted basis to 72½ million workers. Their quarterly advances took place in both the goods-producing and service-producing sectors of the economy. Manufacturing employment gains reflect large advances in industrial production that have been made in recent months.

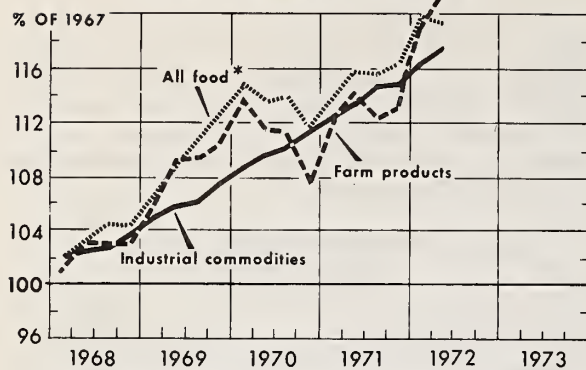
For the private nonfarm sector, average weekly hours and hourly earnings both increased in the second quarter. This combination produced an unusually large increase in total employee compensation in the April-June period. These total earnings, the largest source of personal income, were about 8½% above a year earlier.

Legislation is now under consideration in Congress to raise the minimum wage for most workers covered by the Fair Labor Standards Act. The present minimum wage is \$1.60 per hour for most workers and \$1.30 for farm workers. A rise in this rate would produce additional income for many workers.

Price Indexes

The Wholesale Price Index took big jumps in both May and June after rising slowly from February through April. Price fluctuations for farm products as well as those for processed foods and feeds were responsible for this acceleration. The pace of the price rise for industrial commodities has been advancing steadily since last November.

SELECTED WHOLESALE PRICES



U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 5704-7-17 ECONOMIC RESEARCH SERVICE

In response to the rapid rise in the price of unprocessed foods, price controls were established June 29, 1972 on previously exempt unprocessed agricultural and seafood products at the wholesale and retail levels. All Price Commission regulations are now applicable to wholesalers and retailers of these products, including those controls on markups and profit margins. However, the controls do not apply to farmers and fishermen who supply the items initially. And hence they are limits on margins rather than outright controls on retail and farm prices.

The Administration lifted foreign meat import quota restrictions for the balance of the year on June 26, 1972. This action is intended to encourage more meat imports into the United States. Export controls were placed on domestically produced cattle hides on July 16, 1972 to hold down the cost of American shoes. The price of cattle hides has risen dramatically over the past 10 months, in June the wholesale price of hides and skins was close to 80% higher than a year earlier.

The Consumer Price Index partially reflecting recent wholesale increases, moved up in June to 125.0, rising 0.2% over the May index and 2.9% over a year ago. Prices are expected to average higher in 1972 but the increase will likely trail the 4.3% advance in 1971 and the 5.9% rise in 1970.

Prices as measured by the GNP implicit price deflator rose at an annual rate of 2.1% in the second quarter slowing from a 5.1% rise in the first quarter which had reflected military and government pay raises. The deflator so far this year has risen 3.4% at an annual rate, reviving the hope that the 1972 advance in the deflator can be limited to below 4%.

U.S. Balance of Payments

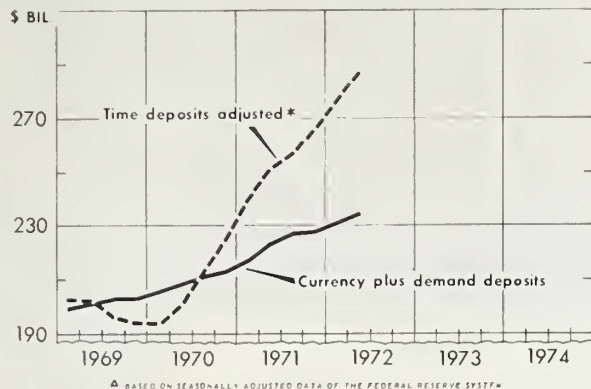
Our official reserve transactions balance and our net liquidity balance improved in the first quarter but remained deeply in the red. Net short-term private capital flows returned to near balance as U.S. short-term interest rates rose a bit and foreign credit eased. This development offset an increase in our merchandise trade deficit and a decrease in our long-term capital accounts. But the dollar remains under pressure reflecting our trade deficit and the huge amount of dollars held abroad by central banks and private institutions.

U.S. merchandise trade deficit worsened in the second quarter this year, recording the fifth successive quarterly deficit. A record \$6.7 billion (annual rate) deficit in the first half reflects the rapid growth of imports into this country caused by our rising economy. The value of imports have also risen partially because of the currency realignment late last year. Unless this trend is reversed, a substantial trade deficit appears to be in prospect this year.

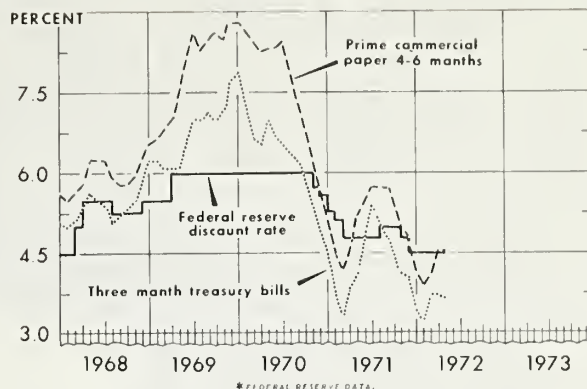
Table 5—Consumer Price Index (1967=100)

Year and month	All items			Food		
	Index	Change from previous month annual rates	Change from year-ago	Index	Change from previous month annual rates	Change from year-ago
	1967=100	Percent	Percent	1967=100	Percent	Percent
1971						
May	120.8	6.0	4.4	118.2	4.1	2.9
June	121.5	7.0	4.5	119.2	10.2	3.5
July	121.8	3.0	4.4	119.8	6.0	3.5
Aug.	122.1	3.0	4.4	120.0	2.0	3.5
Sept.	122.2	1.0	4.0	119.1	-9.0	2.9
Oct.	122.4	1.9	3.6	118.9	-2.0	2.9
Nov.	122.6	1.9	3.5	119.0	1.0	3.6
Dec.	123.1	4.9	3.4	120.3	13.1	4.3
1972						
Jan.	123.2	1.0	3.4	120.3	0	4.2
Feb.	123.8	5.9	3.7	122.2	19.0	5.4
Mar.	124.0	1.9	3.5	122.4	1.9	4.6
Apr.	124.3	2.9	3.4	122.4	0	3.9
May	124.7	3.8	3.2	122.3	-1.0	3.5
June	125.0	2.9	2.9	123.0	6.8	3.2

MONEY STOCK ^Δ



INTEREST RATES *

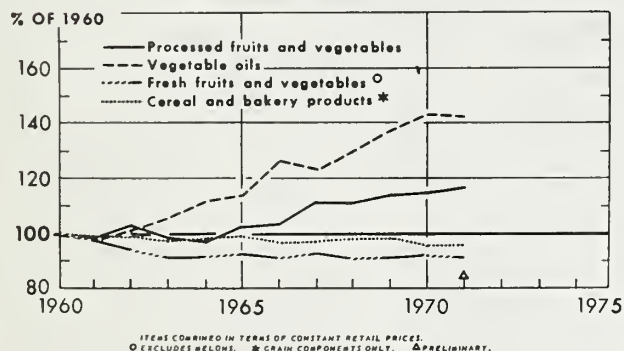


Money Supply

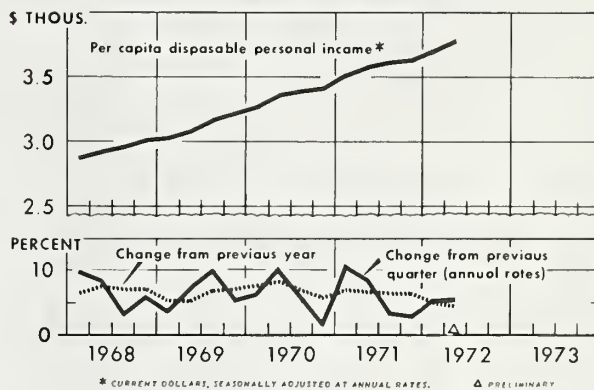
The money supply has expanded at about a 7½% annual rate so far this year after practically no growth at all in the latter part of 1971. The demand for funds has also increased in our rising economy. As a result short-term interest rates have been creeping up, causing a number of banks to raise their prime interest rates.

The Federal Government by its scheduled deficit will supply investors with more incentive to increase their activity. The expanding Federal debt will also cause additional pressure on the money markets as the Treasury competes for funds to finance the national debt.

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